

Greenberg Advisors

M&A • STRATEGIC ADVISORY • CAPITAL



M&A Update

2018

A grayscale background image showing a close-up of a calculator and a keyboard. The calculator is in the foreground, slightly out of focus, with its keypad and display visible. The keyboard is in the background, also out of focus.

Accounts Receivable Management

INTRODUCTION.

Is the ARM M&A market cooling off or heating up? That is the question.

M&A was certainly alive and well in 2018 within the Accounts Receivable Management (ARM) industry. We've analyzed 36 transactions totaling over \$2.7 billion in transaction value.

GA was in the center of the M&A activity, having completed four ARM transactions in 2018, along with additional transactions in related sectors. Interestingly, all of GA's ARM transactions involved a strategic buyer.

We don't expect any significant slow down in the near term, as our conversations with strategic and financial investors indicate a continued healthy appetite for ARM companies.

SELECTED GA TRANSACTIONS FROM 2018.



was acquired by



Sell-Side Advisor



a portfolio company of



acquired the early-out assets of



Buy-Side Advisor



was acquired by



Sell-Side Advisor

KEY TAKEAWAYS.

1 Enterprise Value: Under the Microscope

At \$2.7 billion in aggregate transaction value, deal value in ARM was at a five-year low. Even still, it would be inaccurate to say that deal activity has cooled off. If we exclude transactions with \$500 million or more in enterprise value, the remaining deal value, in fact, exceeds each of the prior 3 years! Blockbuster deals (>\$500 million) aren't representative of most of the transactions in ARM, and therefore they aren't the best indicator of whether the market is 'up' or 'down.'

TRANSACTION VALUE & VOLUME

(\$ in billions)



KEY TAKEAWAYS.

2 Large, Small, but Sold Out of Medium

Interestingly, when looking at the size of the sellers, most of the ARM deal activity is among those generating less than \$25 million of revenue or more than \$100 million of revenue. Together, those two categories accounted for almost 83% of the deals, although the former constituted the significant majority.

DEAL VOLUME BY SELLER REVENUE

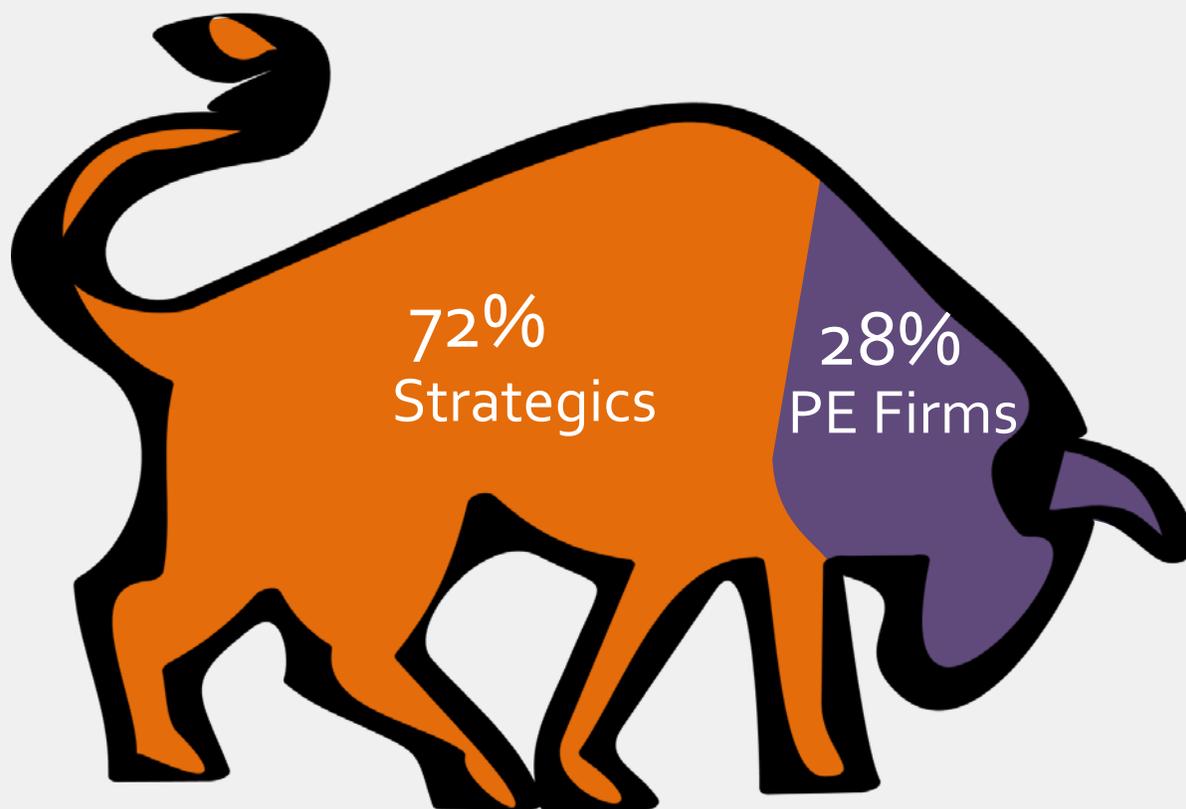


KEY TAKEAWAYS.

3 PE: Bring on the Bulls

Private equity (PE) buyers outpaced private equity sellers 2.7:1 in 2018, the highest level in the last five years. This continues an upward trend among PE buyers in ARM since 2016. In some respects, this explains the level of \$100 million+ deals discussed prior. While it doesn't change the fact that strategic buyers completed 72% of the year's deals, having PE firms in the hunt will continue to increase the demand for targets and translate to higher multiples for sellers.

DEAL VOLUME BY BUYER TYPE



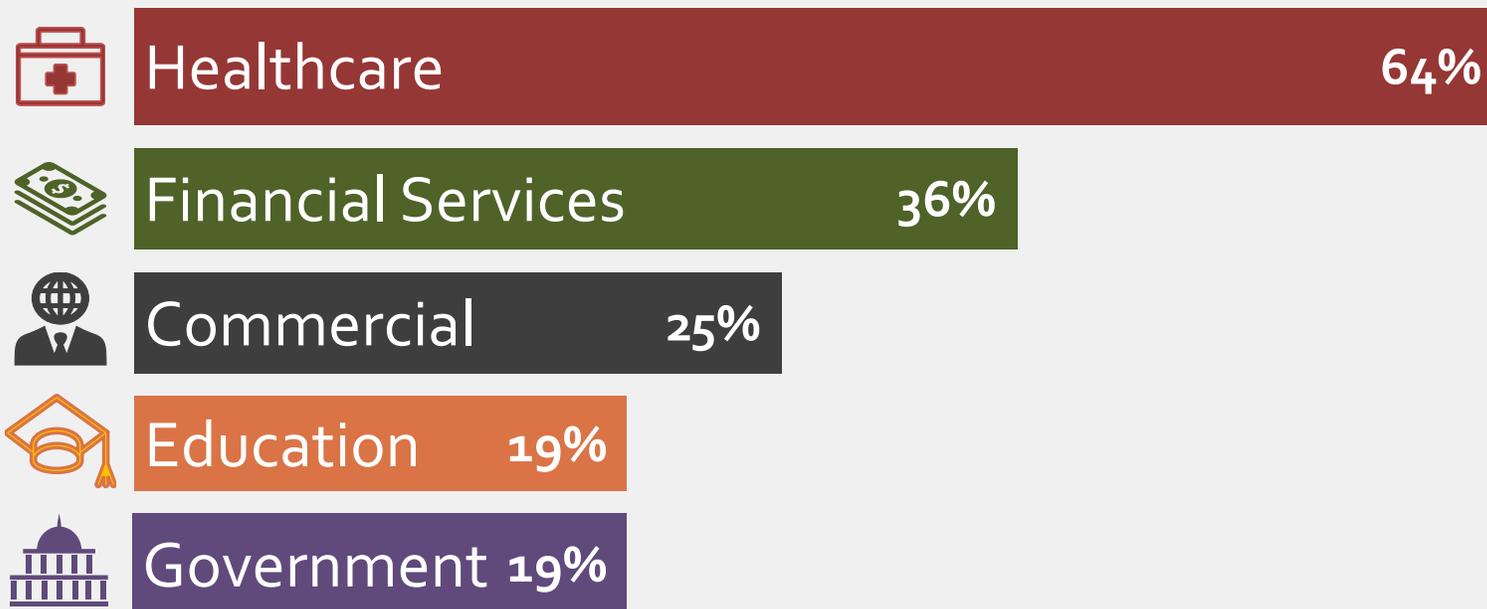
KEY TAKEAWAYS.

4 The Big Five

Healthcare ARM again led the pack with 64% of sellers operating in this segment. Sellers that service financial and commercial clients ranked second and third, just as they did in 2017. Firms that service education and government receivables saw an uptick in activity, with education increasing from 10% of transactions to 19%, and government increasing from 14% to 19%. Sectors with a notable decrease in activity included auto, insurance, telecom, and utility.

Interestingly, investor interest has gradually trended towards more specialized ARM firms. In 2014, sellers on average serviced three client segments. That number has decreased substantially in 2018, with sellers averaging just two client segments.

TRANSACTIONS BY ARM SECTOR



LOOKING AHEAD.

Looking ahead to 2019, we believe that a more 'collection-friendly' CFPB under a Republican administration, coupled with increasing levels of consumer debt, will minimize headwinds stemming from fears of rising interest rates or a recession, and as a result, will drive another active year in M&A.

We do expect some investors to remain on the sidelines to see who emerges as the Democratic frontrunner for the nomination. However, the vital role that debt collection firms play within the economy is impossible to deny. For this reason, as well as the aforementioned rising levels of consumer debt, we believe that ARM firms will continue to be attractive acquisition candidates.

Look for 2019 to be a year of highly strategic M&A activity with buyers pursuing platform investments and/or selectively choosing add-ons within an existing vertical. Similarly, sellers will seek opportunities to divest certain capabilities in order to focus on core competencies, while others will seek to sell most or all of their business in lieu of continued investment required to grow and/or remain competitive in the current environment.

CONSIDERING M&A?

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ABOUT GREENBERG ADVISORS.

Greenberg Advisors, LLC is one of the ARM industry's most prolific M&A advisory and planning firms. The firm's professionals have provided trusted M&A and strategic advice to ARM executives and investors for nearly 25 years, resulting in the completion of over 130 M&A, capital raising, valuation, and strategic advisory engagements.

Greenberg Advisors will celebrate its 10-year anniversary in 2019.

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ADVISING INDUSTRY LEADERS FOR 25 YEARS



a portfolio company of



Norwest Equity Partners

was acquired by




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a portfolio company of



acquired the early-out assets of




was acquired by




acquired




was acquired by




acquired




a portfolio company of



acquired



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